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DE RUEHCH #0493/01 1761414
ZNR UUUUU ZZH
R 251414Z JUN 09
FM AMEMBASSY CHISINAU
TO RUEHC/SECSTATE WASHDC 8097
INFO RUEHMO/AMEMBASSY MOSCOW 3278
RUEHKV/AMEMBASSY KYIV 0646
RUEHBM/AMEMBASSY BUCHAREST 4334
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHDC 0754

UNCLAS CHISINAU 000493

STATE FOR EUR/UMB, EUR/ACE, EEB/OMA

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [EREL](#) [ETRD](#) [MD](#)

SUBJECT: VORONIN VISITS MOSCOW AND RETURNS WITH USD 500
MILLION LOAN - NEXT STOP BRUSSELS

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11. (SBU) SUMMARY: President Vladimir Voronin traveled to Moscow on June 22, and held bilateral meetings with both President Dmitrii Medvedev and Prime Minister Vladimir Putin. Following his talks with Voronin, Putin announced a USD 500 million credit to Moldova. Some media reports quoted Putin as saying that some funds might be available in two to three months. However, at a press conference in Chisinau, Voronin indicated that the first tranche of funds would not be available before the end of the year. Political opposition leaders, including Marian Lupu and Vlad Filat, later expressed concerns about the loan and its conditions. Voronin is planning a trip to Brussels later in the month to meet EC and EU leaders. SUMMARY

VORONIN'S TRIP TO MOSCOW

12. (SBU) The main purpose of President Voronin's June 22 visit to Moscow was to mark the 68th anniversary of the Nazi attack on the Soviet Union on June 22, 1941. He participated in the memorial ceremony and laid flowers at the Tomb of the Unknown Soldier. He later met with both President Medvedev and Prime Minister Putin. This visit was perceived by many in Chisinau as an attempt to win electoral support from the Russian-speaking population in Moldova by showing off the President's good relations with Russia.

13. (SBU) During the one-day official trip to the Kremlin, Voronin sought to obtain financial assistance from Russia to support the Moldovan economy on the eve of elections. Originally, First Deputy Prime Minister and Minister of Economy and Trade Igor Dodon and Minister of Finance Mariana Durlusteanu planned to accompany Voronin. At the last minute, Dodon did not travel. Voronin's inclusion of his economic team stressed the important role of economic issues on the agenda, i.e., a Moldovan request for financial support.

14. (U) Medvedev's joint press conference with Voronin after their meeting focused primarily on his political support for Moldova. Medvedev praised Voronin for the GOM's actions to restore constitutional order in the republic after the political unrest of April 7. Voronin said that "in those difficult days when there were attempts at political destabilization," Russia was the first country to support the GOM. The interlocutors made no mention of a Moldovan request for assistance during the press conference.

PUTIN MEETING AND THE USD 500 MILLION LOAN

¶15. (U) Putin announced a Russian loan of USD 500 million following his meeting with Voronin. The first USD 150 million installment of the USD 500 million loan would be allocated in the shortest possible time, according to Putin. Some media quoted Putin as stating that the first tranche of USD 150 million could be available in two to three months. Putin noted that he would appeal to the Russian parliament to approve the credit and amend the Russian state budget to include the loan. Voronin said that Moldova had proved its good faith and had honored all obligations in the financial area. Voronin stated at a press conference in Chisinau on June 24 that the funds would not be available before the end of the year. He explained that the credit would be directed to investment programs, infrastructure development and construction of roads. He added that Russia had also granted the GOM USD 20 million for the restoration of the parliament building and presidential administration damaged in the political unrest of April 7. He noted that other possibilities existed for the use of the funds, depending on the financial and economic situation in Moldova. Further, he underlined that the money would not be used for consumption. Regarding the IMF, Voronin said that the loan should not impact Moldova's relationship with the IMF. (Note: Moldova's previous IMF agreement expired in May and an IMF mission was unable to negotiate a new accord.) Voronin noted dismissively that the IMF behaved like a wife who dumped her husband from time to time but always came back. He pointed out the IMF left in 2001

when the Party of Communists of the Republic of Moldova (PCRM) came to power only to return in 2005 when the GOM had made great strides forward.

LIBERAL DEMOCRATIC PARTY LEADER CRITIZES LOAN

¶16. (U) Moldovan parliamentary opposition leader Vlad Filat said that Voronin had made a mistake in going to Moscow and requesting financial assistance. Filat, leader of the Liberal Democratic Party (PLDM), stated that the GOM might have problems negotiating a new IMF agreement in autumn. Filat demanded that Voronin provide information on loan maturity, interest rate and the targeted investment projects of the loan. The PLDM leader speculated that the investments might be intended for Voronin's son who has interests in construction firms. Filat accused the ruling PCRM of having missed opportunities to secure grants from foreign donors. Specifically, he suggested that the GOM had missed out on a USD 500 million grant from the Millennium Challenge Corporation which would have allocated USD 300 million to road rehabilitation (sic). He further accused Voronin of using his trip to Moscow to secure the loan as a campaign event in advance of parliamentary elections scheduled for July 29.

EX-SPEAKER MARIAN LUPU VOICES CONCERNS

¶17. (U) Marian Lupu, former speaker of the parliament and now leading candidate of the Democratic Party, stated that the loan would not reach Moldova until the end of 2009 or beginning of 2010 at the earliest. He explained that the Moldovan parliament and government would need to complete a complex series of legal and technical procedures to facilitate a loan accord. The previous Moldovan parliament was dissolved on June 16 after failing to elect a president and the new parliament to be elected on July 29 would not convene until some weeks afterwards. Lupu emphasized that it was very important to publish the terms of the Russian assistance. He indicated his keen interest in knowing whether the loan included grant components and low interest rates. The

Democratic Party, according to Lupu, would like to see the funds used exclusively for the rehabilitation of Moldovan roads. Former Moldovan Minister of Economy and Trade, Valeriu Lazar, who is running in the second slot on the Democratic Party ticket for the upcoming elections, doubted that the loan included good terms for Moldova. He noted that Russia had recently negotiated a financial assistance deal with Kazakhstan that contained very unfavorable terms for Kazakhstan.

VORONIN PLANS TRIP TO BRUSSELS

¶8. (SBU) Foreign Minister Andrei Stratan stated in an interview with the newspaper Timpul on June 18 that, at the end of the month, Voronin would go to Brussels to meet with EC and EU leadership. He said Voronin would discuss bilateral relations, EU aspirations, relations with Romania, and the visa regime for Moldova. Stratan underlined that Voronin would try to convince Brussels that Moldovans could now be granted a visa-free regime as those who wanted to leave the country have already done so. We have heard that this visit was originally scheduled for June 29, but as key European officials will be at the OSCE Ministerial in Corfu that day, a new date must be found.

COMMENT

¶9. (SBU) Many political observers see Voronin's trip to Moscow as political theater for the domestic audience. The PCRM hopes to garner voter support from the Russian-speaking population for the upcoming elections. Given the fact that a recent IMF mission did not negotiate a new agreement with the GOM and that the GOM is facing a large budget deficit, Russia is apparently Moldova's only potential source for financing. However, the funds will not address the immediate need the GOM has for budget support which is the country's most pressing concern. With elections on July 29, the GOM will make the payment

of salaries and pensions a priority in order to ensure support from the PCRM's base. The fact that the GOM is four months in arrears on VAT refunds is evidence of how tight cash is.

¶10. (SBU) Analysts and opposition politicians speculate that Moscow's loan contains a quid pro quo. In a press conference last week, Dodon mentioned privatization of the energy sector as one way to replenish the growing budget shortfall. The Russians are known to be interested in Moldova's natural gas distribution network and gas transit pipeline. GazProm already owns 50 percent plus one share of the Moldovan gas distribution company, Moldovagaz, and controls Transnistria's 13 percent share. Down the road, Russia may envision forgiving Moldova's debts in exchange for acquiring the remaining shares.

¶11. (SBU) Voronin denied these rumors in his press conference on June 24. Some analysts believe the funds will be contingent on the results of parliamentary elections. Should the PCRM remain in power, it is questionable whether Russian funds will ever be allocated. Russia is facing a GDP decline of five to ten percent for 2009, promised USD 3 billion to Kazakhstan, USD 2 billion to Kyrgyzstan USD and a further 350 million to Cuba. Russia held up the final tranche of USD 500 million in a USD 2 billion loan for Belarus this spring questioning Belarus' ability to repay the loan. There have been press reports and rumors in Moldova of a loan from China circulating for several months but no concrete developments have surfaced. Voronin's trip to Brussels, coming on the heels of the Russia trip, could be a signal that despite whatever deals were made in Moscow, Moldova is still intent on pursuing European integration.

CHAUDHRY